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COMMITTEES:  
Natural Resources, Energy and Water  
Appropriations  
Education  
Rules

*Arizona State Senate*  
**OPEN MEETING AGENDA ITEM**

DISTRICT 25

January 5, 2023

The Honorable Jim O'Connor – Chairman  
The Honorable Lea Marquez Peterson  
The Honorable Anna Tovar  
The Honorable Kevin Thompson  
The Honorable Nick Myers  
Arizona Corporation Commission  
1200 W. Washington St.  
Phoenix AZ, 85008

RE: Docket # G-01551A-21-0368

Members of the Commission,

We write to you today in support of Administrative Law Judge Sasha Paternoster's findings in Southwest Gas' rate case that reject proposals made by the Southwest Energy Efficiency Project (SWEET) that seek to limit fuel choice in Arizona. If adopted, SWEET's Infrastructure and Investment Plan (IIP) and allowable investment proposals would harm Arizona's economy and burden customers with higher costs. Framed as ratepayer protections, SWEET's efforts represent the latest instance of environmental special interest groups attempting to advance policy driven electrification in the United States. As the Chairwomen of the Natural Resources, Energy and Water Committees in the Arizona Senate and Arizona House of Representatives, we felt compelled to weigh in on this matter for the good of our constituents and the entire state.

Natural gas plays a critical role in Arizona's success by keeping energy costs low, supporting industries vital to our economy, sustaining good paying jobs in the infrastructure and construction industry, and contributing to the overall resiliency of our energy system. While states like California have enacted misguided policies to limit access to natural gas use, Arizona has become a national leader in protecting consumers' fuel choice.

In 2020, Arizona became the first state in the nation to prohibit local governments from enacting natural gas bans with the passage of HB 2686. The bipartisan legislation was supported by diverse stakeholders including economic development organizations, business associations, low- and fixed-income advocates and workforce groups. All told, Arizona Revised Statutes §9-467; §9-810; §11-321 §11-867, §30-809 and §40-202 all promote customer choice for Arizonans to ensure families and businesses have access to the affordable energy they need or desire for home comfort or commerce.

As you may know, SWEET is a Boulder, CO based environmental NGO that has a stated organizational agenda that includes "advancing state policies that would accelerate electrification in buildings."<sup>1</sup> In recent years, SWEET has been involved in high profile legislative efforts to restrict fuel choice in Colorado<sup>2</sup> and Nevada<sup>3</sup>,

<sup>1</sup> <https://www.swenergy.org/buildings/electrification>

<sup>2</sup> <https://www.swenergy.org/press-release/colorado-bills-june-2021>

<sup>3</sup> [https://www.leg.state.nv.us/App/NELIS/REL/81st2021/ExhibitDocument/OpenExhibitDocument?exhibitId=51055&fileDownloadName=0406\\_AB380\\_SWEET\\_sptltr.pdf](https://www.leg.state.nv.us/App/NELIS/REL/81st2021/ExhibitDocument/OpenExhibitDocument?exhibitId=51055&fileDownloadName=0406_AB380_SWEET_sptltr.pdf)



while opposing efforts in Arizona<sup>4</sup> to protect access to natural gas. This background is important context when deciphering the ultimate goals of the organization's misguided Infrastructure and Investment Plan process (IIP) and allowable investment proposals currently before you.

SWEEP's IIP proposal would create a government-knows-best approach to energy in Arizona where politicians, not customers, would decide what infrastructure is right for a housing development or business. Under the proposal, investments in gas infrastructure greater than \$2 million would require pre-authorization from the Commission, creating an unnecessary regulatory process for infrastructure replacement and expansion. In addition to creating delays, this bureaucratic framework would produce uncertainty for residential and commercial developers related to their ability to obtain the infrastructure required to deliver a successful project. If implemented, applications for new gas service under the IIP framework would be evaluated against "non-pipeline" alternatives including mandated building electrification, even if a potential customer wanted or needed natural gas. This type of business environment would undoubtedly chill development in Arizona. This same process would apply to infrastructure replacements, meaning existing gas customers could be forced to electrify their home or business, at significant cost, if the replacement line was not approved. Equally disturbing, line replacement projects could be rejected in favor of keeping aging infrastructure in the ground, leading to a less safe and reliable natural gas system in our communities.

SWEEP's allowable investment proposal would establish a discriminatory regulatory framework in Arizona where customers would be financially disincentivized from using the natural gas system. Currently, Arizona's natural gas and electric utilities have similar new business policies that allow them to invest in infrastructure for new customers based on contractual energy usage commitments. This upfront investment made by the utility is then repaid through customer bills within 10 years. Adding new homes and businesses to the gas system is a benefit for all ratepayers, as fixed costs are then spread to a greater number of customers. SWEEP's proposal would eliminate this allowable investment mechanism from Southwest Gas, which would hurt economic development and create a market imbalance favoring electric utilities that would undoubtedly limit fuel choice in our state.

If adopted, Arizona would be only the second state in the country behind California to implement such a policy, substantially harming our reputation as a destination for economic development mega projects. Large, advanced manufacturers such as TSMC, KORE Power and Lucid Motors require large amounts of natural gas to produce their products. Adopting policies that would increase upfront costs for similar companies in the future would likely lead to jobs going to neighboring states with more business-friendly environments. While this policy would be harmful to commerce in the entire state, it would have a disproportionate impact on growing areas, like communities in our districts, that lack infrastructure.

Eliminating allowable investment would also deepen Arizona's housing affordability crisis and exacerbate the impacts of record inflation already felt by consumers. Natural gas is a low-cost and efficient energy source for cooking, clothes drying, and space and water heating. On an energy equivalent basis, natural gas costs 3.4 times less than electricity.<sup>5</sup> If builders are forced to build without natural gas, homebuyers would be saddled with the greater overall energy costs associated with running an all-electric home.

We are also concerned about the impact these policies would have on the reliability and resiliency of our energy system in Arizona. We only have to look to California to see firsthand the damaging effects that bad energy policy can have on a state. Anti-natural gas policies that have originated in California, from phasing out natural gas power plants to eliminating new natural gas hookups, have only put greater demand on the state's electric grid leading to higher electricity prices and a less reliable system. As a result, consumers have been faced with rolling blackouts and requests to avoid charging vehicles and using electric appliances to protect the strained grid. In Arizona, we have benefited from responsible policy making that is based in reality and prioritizes

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<sup>4</sup> <https://www.swenergy.org/Data/Sites/1/media/2021-docs/2020-legislative-activity-report-final.pdf>

<sup>5</sup> <https://www.federalregister.gov/documents/2022/03/07/2022-04765/energy-conservation-program-for-consumer-products-representative-average-unit-costs-of-energy>

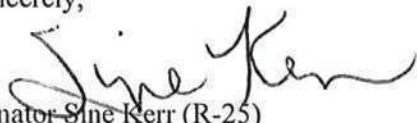
affordability and reliability, sparing our residents from energy shortages in the high summer heat. As Arizona's elected leaders, it is critical that we continue to prioritize these principles when considering policies, such as those proposed by SWEEP, that pose a threat to our system

SWEEP states that these policies are necessary due to the "gas transition" that is occurring Arizona. According to SWEEP, consumers are choosing to electrify, which necessitates less investment in the gas system to prevent stranded assets in the future. The facts do not bare that assertion out. In the 10-year period between 2012 and 2021, Arizona added over 186,000 new natural gas customers, statewide.<sup>6</sup> Average new customer growth from 2012 – 2016 was 13,963 a year, while average growth from 2017 – 2021 was 23,250, demonstrating that demand for the product is only getting stronger.

In addition to being wrong for Arizona, SWEEP's policies have been offered in an inappropriate venue. Proposing such dramatic policy changes in the course of a rate case does not allow for robust stakeholder engagement and the proper consideration of how the affordability and reliability of Arizona's overall energy system, including the electric grid, would be impacted. Additionally, adopting these policies in this manner would create a policy patchwork where different rules would exist for obtaining natural gas service depending on the certificated service territory an individual or business was located in.

Natural gas has played an important role in Arizona's prosperity by contributing to residents' quality of life and supporting our state's rapid economic growth. Adopting SWEEP's proposals would hurt consumers and businesses and harm the work the legislature has done to protect fuel choice in our state. For the good of Arizona, we strongly urge you to adopt Judge Paternoster's order that rejects these anti-natural gas proposals.

Sincerely,



Senator Sine Kerr (R-25)

Chairwoman, Natural Resources, Energy and Water Committee  
Arizona State Senate



Representative Gail Griffin (R-19)

Chairwoman, Natural Resources, Energy and Water Committee  
Arizona House of Representatives

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<sup>6</sup> [Arizona Number of Natural Gas Consumers \(eia.gov\)](https://www.eia.gov)